





In one of those special moments that take place repeatedly wherever he travels, Col. Harland Sanders, founder of Kentucky Fried Chicken Corp., is shown in a reflective mood with a young friend and admirer. Now 82, Col. Sanders is known around the world and continues to be highly active as a goodwill ambassador for KFC.

"Let us savor
the fleeting delights
of our
most beautiful days."

This line from a 19th century French poem might well sum up the pictorial theme of this year's Annual Report. Today's leisurely lifestyle, with which we associate Heublein products, includes beautiful days spent in beautiful natural surroundings. They are etched in our memories as "magical moments," the title we have given to the collection of photos in this book.

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HEUBLEIN, INC.

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THE YEAR IN BRIEF

Years Ended June 30	1972	1971
Net sales and revenues	\$941,753,000	\$837,694,000
Income from continuing operations before provision for income taxes and extraordinary items	72,894,000	64,021,000
Provision for state and federal income taxes	38,243,000	33,458,000
Income from continuing operations	34,651,000	30,563,000
Net income	19,401,000	22,092,000
Earnings per common and common equivalent share:		
Continuing operations	1.87	1.70
Discontinued operations	—	(.09)
Extraordinary items	(.83)	(.40)
Net earnings	1.04	1.21
Cash dividends declared per common share	.87	.84
Working capital	146,529,000	78,124,000
Shareholders' equity	214,515,000	161,210,000
Shareholders' equity — per common share	10.43	7.30
Number of common shareholders	27,826	31,208



LETTER TO SHAREHOLDERS

Heublein today is a more evenly balanced foods and alcoholic beverages company than ever before in nearly 100 years of being. Two-thirds of its corporate revenues this year were derived from alcoholic beverage sales, but more than half of its corporate earnings came from foods.

This is but one indication of a much greater change that has occurred in our company in just the past two years.

In sales, earnings, assets and number of employees, Heublein today is nearly twice the size company it was in 1970.

To manage this sizable growth we organized our operations last year into three Groups – Alcoholic Beverages, Foods, and International. For the first time, in this Annual Report we give a breakout of Group sales and operating income.

Each of the Groups performed profitably and commendably in attaining targeted positions for future growth. These accomplishments are detailed in the following pages, but in brief here is how the Groups performed.

Distilled spirits sales of the Alcoholic Beverages Group rose well above the sales growth rate of the U.S. liquor industry this year, but Group profits suffered from a loss at our Hamm's breweries and a downturn at United Vintners, our California wine company. Hamm's had heavy competition from national brewers in its Western and Midwestern regional markets. United Vintners had higher grape costs with no way to execute price increases, and a loss of share in the volatile "pop" wine market.

Corrective measures were taken in both cases, and management is giving them top priority in order to determine what further steps, if any, may be required.

In the Foods Group, sales of Kentucky Fried Chicken and of the specialty foods of the Consumer Products Division were up by a healthy margin and so were profits. The strength of the KFC gain is indicated by the 18 per cent increase in sales through company-owned stores.

KFC is forging a new spirit of cooperation with its franchisees by improving the quality and quantity of its field services. As one example, it drew 80 per cent participation in a joint advertising program this year. These and other improvements helped KFC further its leadership in the food service industry.

But the highest percentage of gains in Group revenues and earnings was achieved by the International Group, largely because of the 213 company-owned and franchised chicken stores added at the time of the KFC merger. Since then there have been 146 new store openings, the latest in England, South Africa and New Zealand. Next year, new store openings are scheduled at a rapid rate. The total number of KFC stores overseas then will approach 600. Increases in direct exports and licensee sales of alcoholic beverages helped the International Group's revenues and earnings grow at a rate much faster than our domestic business. The potential of our International operation in the expanding world market exceeds, by far, its present contributions to our Corporation.

In this first year of operation the Groups performed well, strengthened their organizations, improved their management systems and generally put themselves in good position for future growth.

The financial structure of the Corporation was strengthened during the year by two moves which improved our debt-equity ratio, reduced our interest payments and increased the funds available for growth.

We called for the redemption of \$50 million of 5¾ per cent convertible subordinated debentures, convertible into common stock. Subsequently we made an offering of \$100 million of 4½ per cent convertible subordinated debentures, which were rapidly oversubscribed at par. These funds were used in part to retire \$60 million of revolving credit loans. The remainder will be used for working capital and for capital improvements.

The major social and economic trends that have created a new lifestyle for millions of the world's consumers continue to have a profound and favorable effect on our business.

In the United States and other major world markets those who consume the world's goods are mostly a younger people, a richer people, a better educated people and a people with more leisure time to enjoy.

This new lifestyle is more than rhetoric – it is real, and it produces change.

For example, in the Seventies there will be some 17 million more 18 to 34 year-old people in the United States than there were in the Sixties.

More than half of all U.S. families now have an annual income of \$10,000 or more.

There are countless changes such as these in our new lifestyle providing opportunities for business.

For example, by the end of this past year there were 21 states that had lowered their legal drinking age, in most cases to 18. Other states are expected to follow with similar legislation. This is a whole new market for our beverage products.

Some observers may view this with concern but the fact is that adulthood is coming at a much earlier age and, in most cases, so is an accompanying sense of responsibility.

The consumer's desire for change, and his willingness to try new tastes in foods and drinks, prompted us to introduce a range of new products this year. We also began developing others for future introduction.

One of the new ones this year was Extra Crispy Chicken. Almost without exception it was immediately successful wherever it was offered. Annie Green Springs is our newest venture into "pop" wines. And the Brass Monkey and the Hobo's Wife are new cocktails that sparked a whole new approach to marketing prepared cocktails. Their success has touched off a sales gain for all our bottled cocktails.

Consumerism and consumer protection are part of this new world of ours. As responsible producers, we share the public

concern for protection, and in our research and technical laboratories we have rededicated our efforts to ensure food safety and protection throughout our system.

Heublein is actively concerned with another important public issue. We support the sound measures being taken to rule the drunken driver off the road. The drunken driver is a high-way menace, along with cars made with the capability to travel at senseless speeds and freeways that are inadequate before they are started.

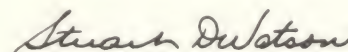
Heublein, along with other liquor producers, has joined U.S. Government agencies in promoting a public education program aimed at identifying and curtailing the alcohol abuser, who drinks to excess, then drives.

Another of our contacts with a branch of U.S. Government is somewhat baffling. After a four-year lapse of time, the Federal Trade Commission decided to file a complaint alleging that Heublein's 1968 acquisition of United Vintners was anti-competitive. This came after the close of the fiscal year and after we had cooperated in the Government's general investigation of the U.S. wine industry.

We vigorously deny that we violated any laws and believe that the facts to be brought out in subsequent proceedings will show that the acquisition of United Vintners actually increased competition and is in the public's best interest.

As we see the U.S. economy and that of other countries of the world magnifying in meaningful terms such as population, per-capita income, and new household starts, we are optimistic about the future of our business. All these things favor the use of Heublein products. Fortunately, we have the resources, the facilities and the management skills to capitalize on opportunities for further growth.

For this year's success we are grateful to our employees, to our Board of Directors and its Executive Committee, to our agencies, suppliers and to others outside of our company who have contributed to its progress.



President and Chief Executive Officer



Christopher W. Carriuolo
Group Vice President
Alcoholic Beverages Group

THE ALCOHOLIC BEVERAGES GROUP, leading sales producer among Heublein's three operating groups, had strong sales growth this year and attained several goals important to the long-range growth of the business.

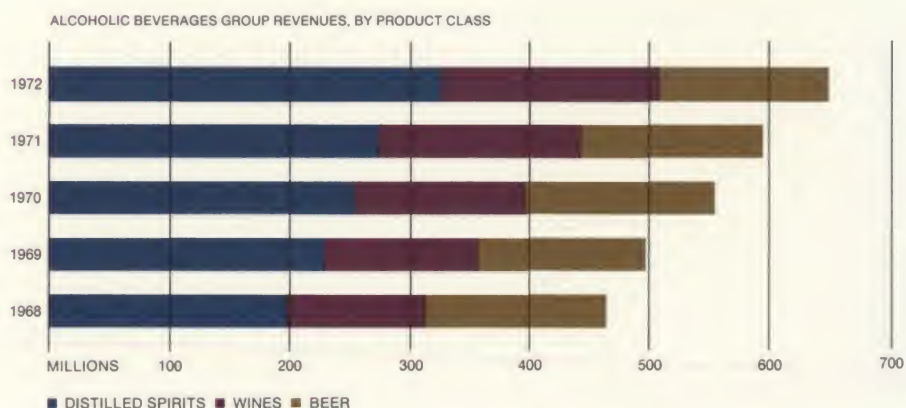
The Beverages Group consists of the Smirnoff Beverage & Import Co., United Vintners, Inc., the Theodore Hamm Co. and Beaulieu Vineyard. Together they produced sales totaling a record \$648,656,000, an increase of 9.3 per cent over the preceding year. The Group's operating income was \$35,585,000.

Our distilled spirits business had outstanding results. Smirnoff Vodka, the leading brand, again had a growth rate greater than that of the U.S. liquor industry as a whole, and increased its share of the fast-growing vodka market. A recent industry study showed that only 19 of the nation's top 54 liquor brands grew more than 10 per cent in 1971 – and five of the 19 were Heublein brands. These results help substantiate that Heublein is strongly positioned in the fastest-growing categories of the U.S. distilled spirits business.

Heublein's wine sales, including both imported and California wines, were ahead of the preceding year's, primarily because of strong performances by our imported sherries and Portuguese wines. While our California wine sales increased, profit margins were adversely affected by an unsatisfactory product mix, by sharp increases in grape prices, which are not Government-regulated, and by the inability to implement wine price increases. We have initiated several programs to correct this situation.

Our beer business, which is concentrated mainly in the Midwest and Western regions of the country, continued to cope with extreme competitive pressures exerted by the largest national brewers. Our Theodore Hamm subsidiary retained its standing as the nation's ninth largest brewer, aided by the acquisition of the popularly-priced Burgie brand of beer. The addition of Burgie improved Hamm's competitive position in key Western markets, and also increased operating efficiencies at the company's two West Coast breweries.

More detailed information on the operations of the Alcoholic Beverages Group can be found on the following pages.







THE SMIRNOFF BEVERAGE & IMPORT CO. (SBIC) is the largest and most profitable member of Heublein's Alcoholic Beverages Group. Sales increases by SBIC this year outpaced the total corporate growth rate.

In addition to its record sales year, SBIC implemented several programs that helped to increase operating efficiency throughout the division. They included new purchasing, manufacturing and distribution techniques that yielded significant cost savings; several major facilities improvements; an improved management information system; an expanded management development program, formation of a New Products Group, and expansion of the Venture Sales Group, which applies special promotional techniques to new product introductions.

Shortly after the close of the fiscal year, J. Richard Grieb was appointed president of SBIC. Mr. Grieb was formerly president of H.J. Heinz Company, U.S.A., a division of the H.J. Heinz Company, international marketer of food products. Mr. Grieb filled the vacancy created when Chris W. Carriuolo was elected corporate group vice president of the Alcoholic Beverages Group.

SBIC's record sales were paced by its leading brand, Smirnoff Vodka, which had a record increase in case sales. Smirnoff's annual sales in the U.S. now exceed four million cases, making it the nation's third largest selling liquor brand.

All of SBIC's other major brands did exceptionally well this year. In fact, several exceeded Smirnoff's rate of growth, although on much smaller bases. This growth tends to confirm the popular preference for light and flavorful alcoholic drinks.

For example, Black Velvet is lightest in taste and color of all Canadian whiskies, and is the nation's fastest-growing major liquor brand. Its sales increased more than 33 per cent this year.

Innovative marketing and sales efforts went into the promotion of flavorful new Smirnoff drinks, such as Yellow Fever, which is Smirnoff and lemonade; the Peppermint Martini, which is Smirnoff and Peppermint Schnapps, and the Adam's Apple, Smirnoff and apple juice. For sophisticated martini drinkers, Smirnoff Silver, a 90.4 proof vodka, was marketed nationwide with very good results.

Smirnoff gained worldwide press coverage through its sponsorship of several trend-setting sports events during the year, including the first cross-country sail-plane race ever held in the United States.

Press and television coverage followed this light plane race from Los Angeles to Baltimore, creating widespread public interest. The Smirnoff World Pro-Am surfing championships in Hawaii, world's richest surfing contest, also attracted wide public attention for the brand.

Two other Heublein vodka brands, Popov and Relska, had a combined growth rate of 24 per cent this year. Popov is now among the 30 liquor brands in the U.S. with annual sales of more than a million cases.







Two unique new cocktails, the Brass Monkey and the Hobo's Wife, both made to secret Heublein formulas, spurred all Heublein's bottled cocktails to their best sales performance in several years. The Brass Monkey, introduced last year with heavy promotion, has continued to grow in popularity. On the basis of its performance, the Hobo's Wife, a tasty mixture of Smirnoff, apple liqueur, and several special ingredients, was introduced this year. Consumer response exceeded that for the Brass Monkey.

Club Cocktails in cans also had a good year with a 10 per cent gain in case sales. Much of this is attributable to promotions aimed at special markets such as boaters and campers, who like the variety of the drinks and the portability of canned cocktails.

Arrow Cordials, Heublein's line of flavorful liqueurs, had a 15 per cent sales increase and moved closer to being the leading cordial brand in the U.S. The added business came mostly from distribution of more flavors in more markets and from the growing popularity of the Sombrero, a delicious mixture of Arrow's Coffee-flavored brandy and milk.

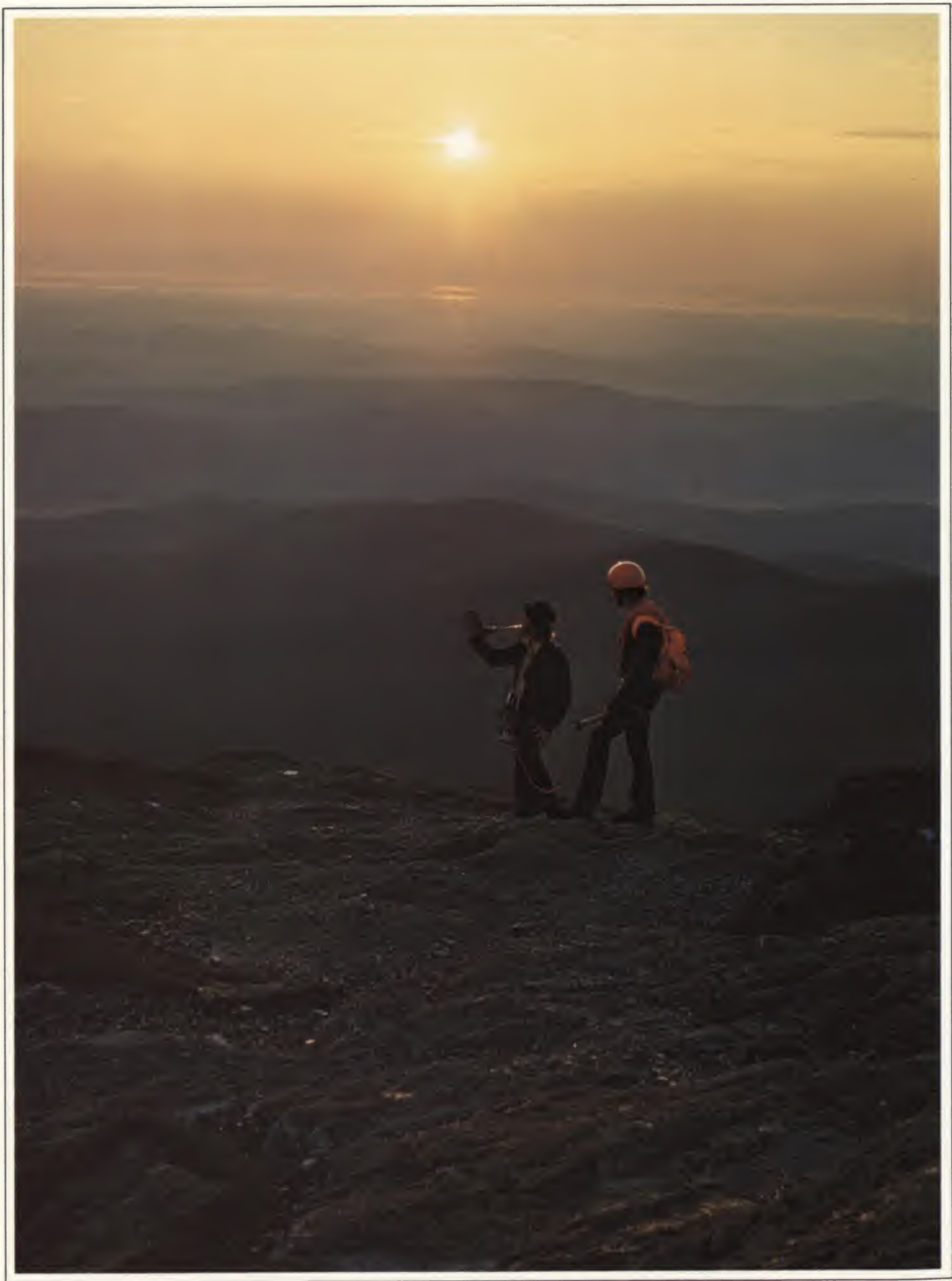
Premium imported wines represent another large, profitable and growing part of SBIC's business. Harvey's Bristol Cream, which Heublein has developed into the nation's best-selling imported sherry, had a sales gain of more than 25 per cent this year, despite a prolonged dock strike that interrupted deliveries and despite an import surcharge that increased the retail price.

The first imported wine to be advertised on television in this country, Harvey's Bristol Cream continues to employ TV extensively and successfully, particularly around the major holidays.

A sales increase of more than 15 per cent was achieved by two other successful imports, Lancers Vin Rosé and Lancers Vinho Branco, a white wine from Portugal. The Lancers wines were supported by heavy print and TV advertising and by a promotion that put these versatile wines into the picnic basket as well as the best dinner crystal.

Healthy sales gains of 15 per cent or more by Jose Cuervo Tequila, Matador Tequila, Tullamore Dew Irish Whiskey and Irish Mist Liqueur rounded out the record sales year for SBIC.

UNITED VINTNERS, INC., the California wine company in the Alcoholic Beverages Group, increased its sales this year. The premium Inglenook Vineyards brand, responding to the growing demand for dry wines, more than doubled its sales volume.



While United Vintners' sales continued to grow, the division's contribution to corporate profits was below expectations due, in large part, to sharp increases in grape prices, which are not regulated, and our inability to implement wine price increases. Wine grapes sold at record prices for the third consecutive year and are expected to remain high in fiscal year 1973 because of the short crop resulting from a severe spring frost and a summer "burn" in California.

The exceptional performance of the Inglenook brand reflected two major trends which United Vintners plans to capitalize on to a greater extent in coming years: the growing preference in this country for dry table wines rather than sweet dessert wines, and the tendency of consumers to trade-up as their knowledge of wines increases.

Virtually all of Inglenook's sales gains came in the dry table wine category, as more Americans discovered the extra dimension that wine adds to meals.

Inglenook broadened distribution of its popularly-priced Navalle wines, and added two new wines—a Rhine and a Claret—to the Navalle line to meet increased demand.

Rare vintages of Inglenook wines, and of Beaulieu Vineyard, Heublein's other prestigious California winery, drew record bids at Heublein's Premiere National Auction of Rare Wines, held this year at the Lincoln Center in New York City. These California wines now command prices comparable to those for some of the finest French vintages.

At Beaulieu, work began on a carefully-planned expansion of the winery. The expansion will provide more space for barrel-aging of Beaulieu's fine estate-bottled wines and a modest increase in the production of Vintage Beaulieu Champagne, which is still made by the classic old world method.

United Vintners this year continued a broad-ranging cost effectiveness program to eliminate low-margin products in favor of more profitable items. This resulted in elimination of some 400 items, and enabled United Vintners to increase the efficiencies at its wineries.

Extreme volatility again characterized the market for "pop" wines. Life cycles of these wine brands tend to be short, with accelerated sales increases and often equally rapid declines. United Vintners' major product in this category is Bali Hai, a tropical fruit-flavored wine, which scored its sales highs in previous years.

United Vintners' two new "pop" wines were introduced more widely this year. They are Annie Green Springs, which is available in two flavors, Country Cherry and Berry Frost, and Sangrole, a flavorful Spanish-type wine.

Young adults, introduced to wines through brands of this type, later often develop preferences for table wines such as Italian Swiss Colony and then the top premium brands such as Inglenook.





United Vintners took advantage of the trend toward increased sales of wines in food supermarkets by strengthening its sales staff with personnel experienced in the supermarket business. Particular effort was put into expanding supermarket distribution of the popularly-priced Italian Swiss Colony wines.

Wine sales in food stores are now permitted in 31 states, which account for 60 per cent of U.S. wine sales. It is anticipated that additional states will permit such sales in the near future.

Winery tours continue to be an effective sales promotion vehicle for United Vintners. This year almost a half-million visitors toured the Italian Swiss Colony winery at Asti and the Inglenook winery in the Napa Valley.

As part of an expansion program, facilities improvements were made at the United Vintners winery in Madera, already one of the nation's most modern winery complexes. A new bottling line was installed and warehousing facilities were expanded.

THE THEODORE HAMM CO., Heublein's regional brewery, had a decline in sales, and as a result did not contribute to corporate profits this year.

Several major steps were taken to strengthen Hamm's long-range competitive position, including acquisition of the well-known Burgermeister brand on the West Coast. This provided the company with a lower-priced beer to meet competition in California and other Western markets.

The Burgie brand is sold not only in California but in Washington, Oregon, Idaho, Montana, Nevada, Utah, Arizona, New Mexico and Hawaii. It is produced at Hamm's two West Coast breweries. Major facilities improvements and the added volume provided by Burgie helped to increase operating efficiencies at both breweries.

Another step in strengthening Heublein's beer business was the appointment of Charles J. Herbert as president of Hamm's. Herbert was formerly vice president and general sales manager of the Smirnoff Beverage and Import Co. and before that was vice president and regional sales manager for Hamm's. Under his direction, Hamm's management team was reorganized, cost reduction programs were initiated and aggressive new marketing programs were launched.

Typifying the new, more aggressive approach it is taking, Hamm's presented its marketing plans for the year at a meeting of its 1,000 beer wholesalers and field sales personnel in San Diego last February. The plans, which drew an enthusiastic response, are already in operation.

Included in the plans was the famous Hamm's Bear, which is now incorporated in Hamm's advertising theme. A special promotion this spring featuring the Hamm's Bear 12-pack drew an excellent consumer response.

Because beer is a popular drink with sports fans, Hamm's expanded its participation in a variety of sports promotions and advertising campaigns. In baseball, the company sponsors broadcasts of games played by the Minnesota Twins, San Francisco Giants, Kansas City Royals and San Diego Padres. In hockey, it sponsors broadcasts of the Chicago Blackhawks and Los Angeles Kings, and in basketball, it sponsors broadcasts of the world champion Los Angeles Lakers. Hamm's also is involved in a number of football, bowling and snowmobiling promotions.

Hamm's received recognition in major news media for its role as co-sponsor of the nation's most comprehensive recycling center for bottles, cans and fibreboard. The Center, in St. Paul, provides jobs for more than 50 handicapped persons, while providing the community with a viable answer to its litter problem. At present the Center is recycling some 80,000 pounds of packaging materials per week.

After a decade in which total beer sales in the U.S. grew at the rate of about 3 per cent a year, beer sales are now projected to increase 4 to 4½ per cent a year throughout the 1970's. The beer industry believes that the increasing numbers of young, active and relatively affluent consumers who will come of drinking age will account for most of this growth.





Barry M. Rowles
Group Vice President
Foods Group

THE FOODS GROUP was Heublein's second largest operating group in terms of revenues this year and the leader in profitability. It consists of the operations of Kentucky Fried Chicken Corporation, based in Louisville, Ky., and the Consumer Products Division, with headquarters in Hartford, Conn.

Revenues of the Group increased 15.6 per cent this year to a record \$259,376,000 while income from continuing operations was \$39,320,000, a 26.8 per cent gain.

Kentucky Fried Chicken, in its first year as part of Heublein, concentrated on broadening its product line, strengthening its management, increasing the effectiveness of company franchisee relations, expanding its nationwide network of retail outlets, eliminating unprofitable operations, and bolstering per-store sales volume.

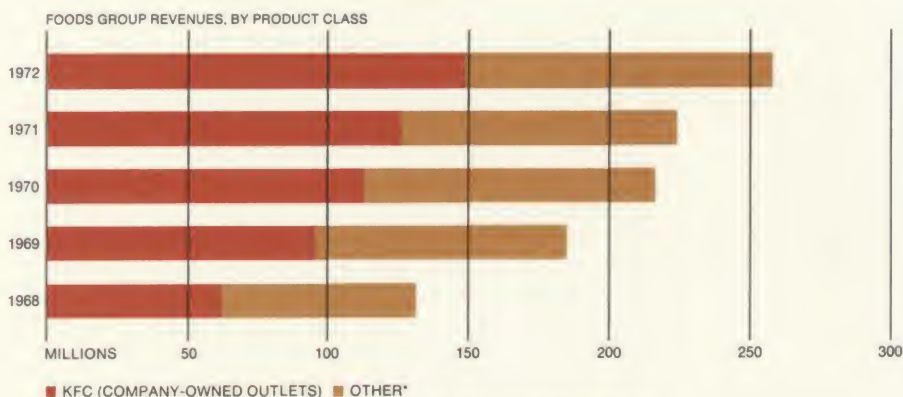
KFC management believes that a new spirit of cooperation developed between the company and its franchisees during the past year, one example being the more widespread use of joint advertising and marketing efforts in markets where both the company and its franchisees operate stores.

As a result of these developments, KFC achieved record profits and established a solid base for continuing growth. With over 3,500 retail outlets throughout the U.S., the KFC system is the nation's largest commercial food service organization.

The wide range of specialty foods marketed by the Consumer Products Division also fits today's lifestyle. Their sales contributed to the Foods Group's record growth this year.

Since the acquisition of KFC, Heublein has expanded the food technology resources of the Corporate Research and Development Laboratory for the mutual benefit of both KFC and the Consumer Products Division.

Soon after the fiscal year ended, Michael A. Miles, formerly senior vice president for marketing at Kentucky Fried Chicken, was elected corporate vice president and general manager of the Consumer Products Division.



*Includes specialty food products, franchise fees and other fast-food related operations, no one class of which exceeds 10% of consolidated revenues.





KENTUCKY FRIED CHICKEN CORPORATION had record results in fiscal 1972. Revenues from continuing operations increased 16 per cent. The company and its franchisees added 187 KFC stores during the year. Sales through the company's retail stores increased 18 per cent, outperforming the total \$12-billion food service industry, which is growing about 10 per cent a year.

There are now 609 company-owned and 2,964 KFC-franchised retail food service stores in the U.S., selling an average of 1.5 million meals a day. Virtually every U.S. city of more than 20,000 population has at least one KFC outlet.

The company is broadening its market to smaller communities with a new type of "hometown" restaurant called "The Colonel's." These new restaurants have an expanded menu of Kentucky Fried Chicken, H. Salt Fish & Chips, and hamburgers, and offer both restaurant-style seating and carry-out service. More than 70 of these restaurants are in operation, some in towns of less than 10,000.

A product innovation that proved highly successful this year is Extra Crispy Chicken, which moved into broad distribution. Now offered by most company stores and many franchised outlets, Extra Crispy Chicken has broadened KFC's market and significantly increased sales. Many more franchisees are preparing to market the new product in the coming year. The company continues to conduct major research on other new or improved products, in order to meet changing market conditions.

Following Heublein's acquisition of KFC, the management of KFC was reorganized and strengthened. The marketing department was strengthened by the addition of a market research operation, a professional product research and development group, and an expanded field marketing services organization. The expanded field marketing services staff now provides more effective advertising and marketing support to both company and franchise stores.

The company's field operating services staff, which works directly with franchisees, has more than doubled in size. The caliber of its personnel was sharply upgraded, to provide a full range of management services to franchisees.

A new advertising campaign was developed to emphasize the company's responsiveness to local consumer desires and it helped sales substantially. Local advertising is coordinated with the national campaign that emphasizes KFC's leadership in the food service industry and the high quality of its products. More than 80 per cent of all franchisees used company-originated advertising and marketing materials this year, a new high.

Franchisees participated in record numbers in KFC's annual national convention and in 13 subsequent regional seminars. Their acceptance of a new set of standard operating procedures, known as Re-Colonization, ensures the highest possible level of consistent product quality. It re-emphasizes established procedures and techniques for preparing Kentucky Fried Chicken.

A new store management system that projects sales volume at individual stores on a day-to-day, hour-by-hour basis was developed during the year to improve service and product quality. The system reduces product waste and makes better use of employees' services. The system is now available for franchisees' use.

An improved system was developed for distribution of paper products, spices and equipment to all KFC stores. It involves 13 regional distribution centers, seven of which are completed, resulting in faster, more efficient deliveries.

KFC also introduced a new poultry procurement system that affords more inspections and higher quality standards in KFC's own poultry growing and processing operations and in those of independent suppliers.

A new accounting and reporting system, installed in company stores, provides daily reports on store performance, thereby alerting management to problems and opportunities as soon as they arise.

The acquisition of Spring Valley Foods, Inc., a producer and processor of broiler chickens, with annual sales of about \$30 million, is expected to be completed early in the 1973 fiscal year. The agreement calls for an exchange of Heublein common stock valued at approximately \$9.8 million for all outstanding shares of Spring Valley.





THE CONSUMER PRODUCTS DIVISION, which produces and markets A.1. Sauce, Grey Poupon Mustard and a variety of other specialty foods, had another good year, achieving an 11 per cent increase in dollar sales.

A.1., which has been a success in the U.S. since Heublein began marketing it in 1907, had a sales increase of 7 per cent. It continues to be the nation's best-selling meat sauce. Creative advertising on television and in Sunday supplements helped to stimulate consumer demand for this versatile sauce.

Grey Poupon Mustard, which the Consumer Products Division has developed into the nation's largest selling Dijon-style mustard, had an excellent year with a 28 per cent sales increase. Formerly displayed in the specialty section of most supermarkets and grocery stores, Grey Poupon is now stocked on the same shelves with other mustards. This makes the brand more easily available to consumers, a factor in its growing popularity. The new 8-ounce container, introduced last year, is another contributing sales aid.

Snap-E-Tom, the Division's spicy tomato cocktail product, increased sales by 23 per cent. Much of the brand's growth was derived from improved distribution and increased sales in the Midwestern states. Market research shows that most buyers drink Snap-E-Tom "straight," but it continues to be popular as a mixer with alcoholic beverages. To capitalize on this fact, successful tie-in promotions were held with two Heublein liquors, Jose Cuervo Tequila and Popov Vodka.

Recent advances in the production process for Snap-E-Tom have contributed to increased production capacity. This was a key factor in helping the Division to achieve broader distribution.

A booming business in Mexican-style meals helped the Ortega line of chiles and sauces to achieve a 13 per cent sales gain during the year. These products are made at the Consumer Products Division's plants in Oxnard, Calif. and Douglas, Ariz., which are operating at capacity to meet the growing demand. The Division is increasing its production facilities for the Ortega line, to continue expanding distribution beyond the West Coast and Southwest market areas.

This was the first full year in which the Consumer Products Division had operating responsibility for the Regina line of wine vinegar products, acquired in January, 1971. With the help of more attractive packaging, broader distribution and effective in-store promotions, Regina sales increased 30 per cent.

An effective promotion for the product was a "Salad Spectacular" in which chefs from over 1,100 leading U.S. restaurants, hotels and institutions created tasty new salads using Regina wine vinegar. Extensive publicity was generated by the contest, and the prize-winning recipes are now being incorporated in promotional materials that will be used in the coming year.

Regina's burgundy and sauterne cooking wines were upgraded in quality and an entirely new cooking sherry was developed this year. The increasing use of wines in cooking is expected to benefit the Regina line.





Paul R. Dohl
Group Vice President
International Group

HEUBLEIN INTERNATIONAL, LTD., with headquarters in Hartford, is responsible for all Heublein operations outside the United States. It is the smallest of the corporation's three operating groups in terms of revenues and earnings, but the fastest growing. Revenues increased 68.7 per cent this year to \$33,721,000, while operating income rose 49 per cent, to \$3,605,000.

The International Group derives its revenues from sales made by company-owned Kentucky Fried Chicken stores, from European beverage marketing operations, from exports, and from royalties received from KFC franchisees and Smirnoff licensees.

The Group's rapid growth in major world markets is due largely to the changing lifestyle that favors our domestic foods and beverages business. Growing affluence and increasing leisure time are as descriptive of modern life in many other countries as they are in the United States.

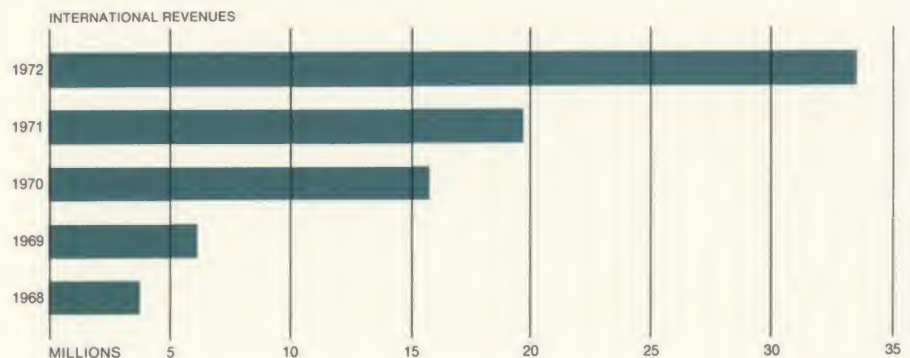
In order to capitalize on these developments, and to achieve the most efficient utilization of its personnel and resources, Heublein International is organized in five regional profit centers. Each profit center markets a broad range of Heublein foods and beverages within its region.

Heublein International this year acquired responsibility for the overseas operations of Kentucky Fried Chicken, in addition to handling the world marketing of Smirnoff Vodka, wines from California and Portugal, Hamm's Beer and other Heublein products.

The International Group's operating regions are: Europe, Middle East and Africa, with headquarters in Brussels; Western Hemisphere, comprising Canada, the Caribbean, Central and South America, based in Hartford; Northern Pacific, operating out of Tokyo; Southern Pacific, with headquarters in Sydney, Australia, and Special Markets, including military and duty-free markets, based in Hartford.

All five operating regions are supported by the Group's Administration & Finance and Development & Marketing Departments based in Hartford.

A Domestic International Sales Corporation, or DISC, was formed this year by the International Group to take advantage of newly enacted tax incentives provided by the Federal Government in order to encourage exports. Government approval also was obtained for a bonded bottling line at the Hartford plant for tax-free production of export liquor products.







Major sales increases for almost all product lines were recorded this year by HEUBLEIN INTERNATIONAL, LTD., which now employs more than 2,500 people in five continents.

Kentucky Fried Chicken's international operations continued their rapid growth abroad, and consumers in more than 30 countries and territories around the world are now enjoying Colonel Sanders' "finger lickin' good" fried chicken.

Kentucky Fried Chicken was successfully introduced to two new markets this year, South Africa and New Zealand. The first KFC store in New Zealand, located in the city of Wellington, had record first-month sales.

Australia, with more than 100 KFC stores, is the company's most fully developed overseas market. Economists predict that the amount of money spent on meals prepared away from home will double in Australia in the next five years, presenting KFC a major opportunity for further growth. The new Extra Crispy Chicken is being introduced at many of the Australian stores, following successful test marketing.

England is another major growth market for KFC International. The 100th KFC store there was opened this year, well ahead of the projected date. As is true in most overseas markets, some of the KFC stores in England are company-owned and some are franchised. The ratio of company-owned to franchised stores varies from country to country, depending on market conditions.

Japan is regarded as another potential growth market. The first KFC store in Japan was opened in 1970. There are now 22 stores in operation there.

KFC operations in Japan, England and New Zealand are joint ventures, in which the local partners assist in providing some of the experience and ability needed under local market conditions.

Smirnoff Vodka, already the best-selling liquor brand of any kind outside the United States, continued to strengthen its international popularity. Notable sales increases were achieved in Canada, Iran, Ireland and Mexico, all of which had gains of more than 20 per cent this year.

Total Smirnoff sales outside the United States increased by more than 15 per cent.

For the third consecutive year, export sales of United Vintners wine products increased by more than 50 per cent. New wine markets were developed in the Caribbean, and Bali Hai flavored wine was brought to test market in Japan.

Export sales of Hamm's Beer also increased, especially in the Caribbean and at U.S. military bases in the Pacific.

Reversing the usual pattern, Carib Cup Liqueur produced by Heublein's subsidiary in the Bahamas, was introduced in the United States by the Smirnoff Beverage and Import Co. after scoring its first success in a foreign market. Carib Cup is a premium quality rum-based liqueur which can be consumed by itself or in various mixed drinks and fits well into the growing market for rum drinks.

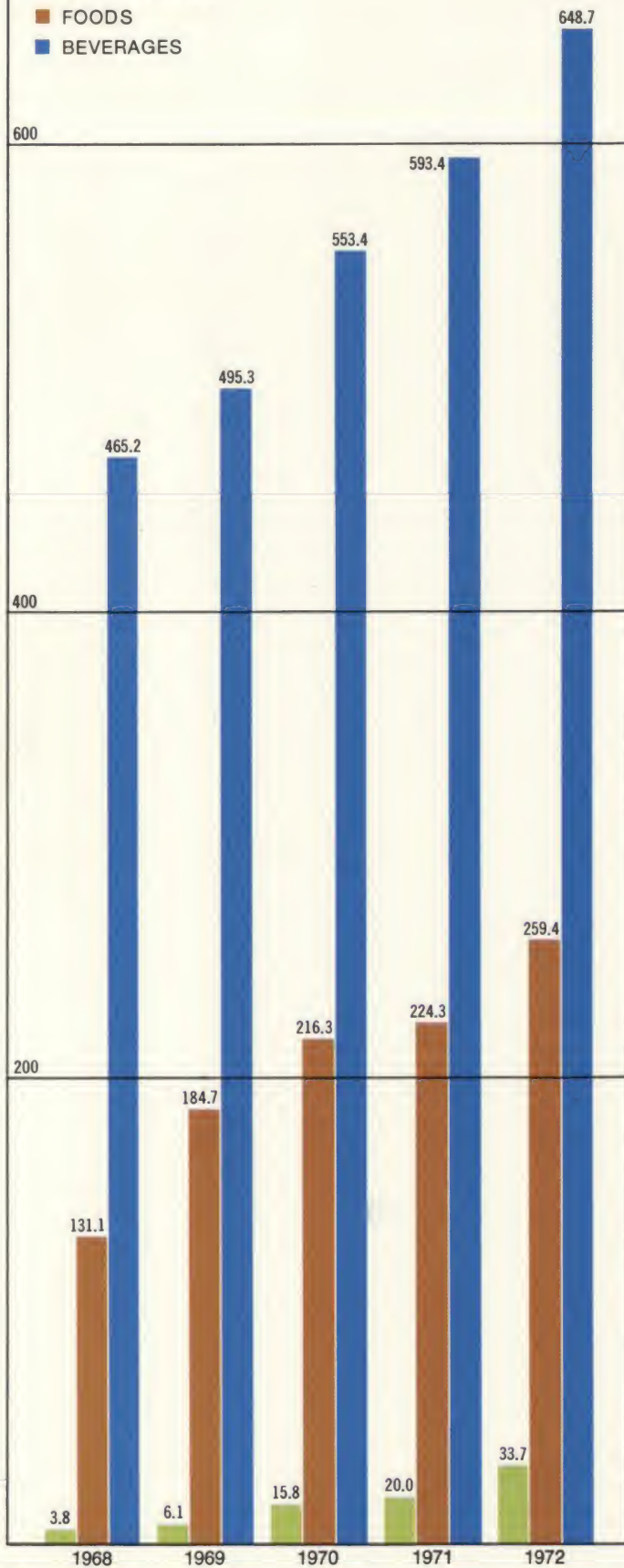
In order to expand its wine marketing capabilities, Heublein International entered into a joint venture marketing company on January 1, 1972, with J.M. da Fonseca. The new joint venture handles the worldwide marketing of Lancers Vin Rosé, Faisca Vin Rosé and other fine wines produced by the da Fonseca company. The venture is operating profitably and its sales are growing.

Shown on the opposite page are two of the several hundred overseas KFC stores. Top: Frankfurt, Germany; bottom: Tokyo, Japan.

FIVE-YEAR REVENUES BY GROUP

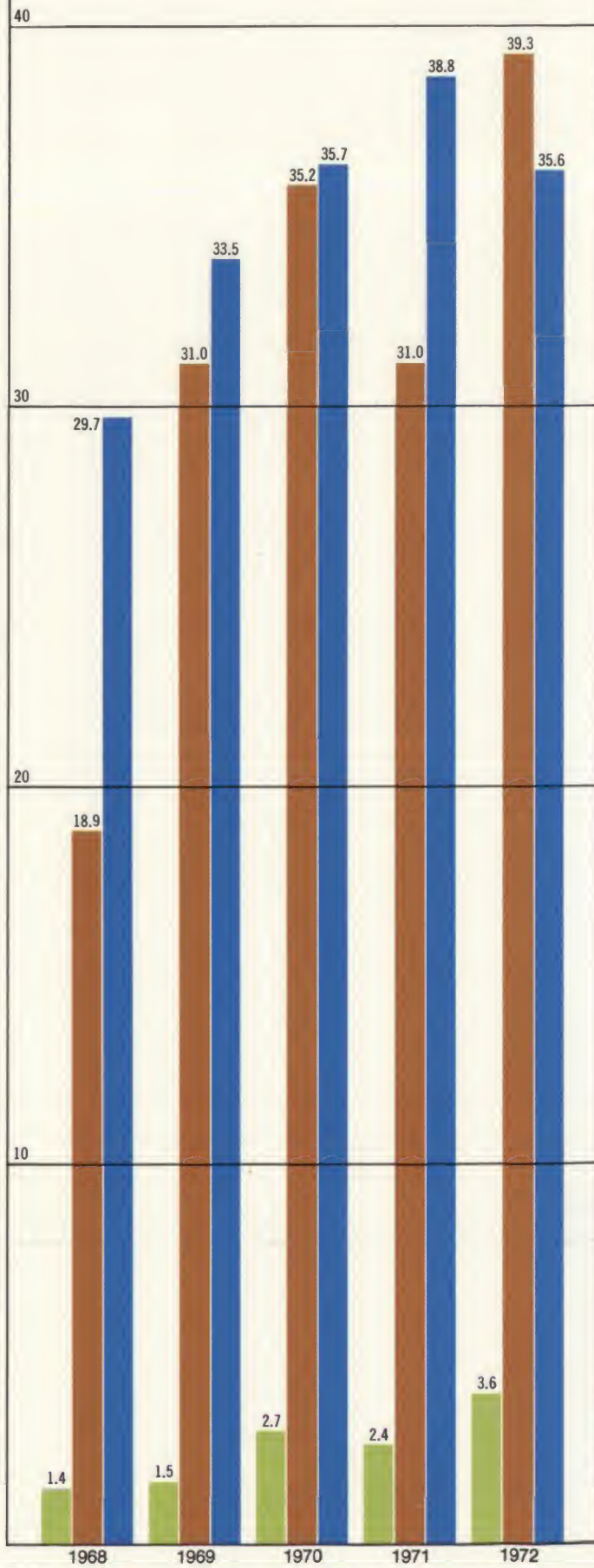
(IN MILLIONS OF DOLLARS)

- INTERNATIONAL
- FOODS
- BEVERAGES



OPERATING INCOME BY GROUP

BEFORE EXTRAORDINARY ITEMS (IN MILLIONS OF DOLLARS)



CONSOLIDATED STATEMENT OF INCOME

Years ended June 30, 1972 and 1971

	1972	1971
Revenues:		
Net sales	\$922,190,000	\$822,529,000
Franchise fees and other	19,563,000	15,165,000
	941,753,000	837,694,000
Costs and expenses:		
Cost of sales	669,801,000	597,680,000
Selling, advertising, administrative and general expenses	193,442,000	167,803,000
	863,243,000	765,483,000
Operating income	78,510,000	72,211,000
Other income (deductions):		
Interest expense	(7,164,000)	(8,044,000)
Interest income	768,000	516,000
Miscellaneous — net	780,000	(662,000)
	(5,616,000)	(8,190,000)
Income from continuing operations before provision for income taxes and extraordinary items	72,894,000	64,021,000
Provision for income taxes:		
Federal	32,362,000	30,267,000
State	5,881,000	3,191,000
	38,243,000	33,458,000
Income from continuing operations	34,651,000	30,563,000
Loss from discontinued operations, less tax effect (Note 4)	—	(1,606,000)
Income before extraordinary items	34,651,000	28,957,000
Extraordinary items (Note 4)	(15,250,000)	(6,865,000)
Net income	\$ 19,401,000	\$ 22,092,000
Earnings per share:		
Common and common equivalent —		
Continuing operations	\$1.87	\$1.70
Discontinued operations	—	(.09)
Before extraordinary items	1.87	1.61
Extraordinary items	(.83)	(.40)
Net earnings	\$1.04	\$1.21
Assuming full dilution —		
Continuing operations	\$1.79	\$1.62
Discontinued operations	—	(.08)
Before extraordinary items	1.79	1.54
Extraordinary items	(.77)	(.36)
Net earnings	\$1.02	\$1.18

See accompanying notes and summary of accounting policies.

HEUBLEIN, INC.

CONSOLIDATED BALANCE SHEET

June 30, 1972 and 1971

1972

1971

ASSETS**Current assets:**

Cash and marketable securities	\$ 34,795,000	\$ 24,655,000
Accounts and notes receivable	100,440,000	93,201,000
Inventories at lower of cost (first in, first out) or market:		
Finished products	32,032,000	29,902,000
Products in process	4,802,000	4,348,000
Bulk whiskey and wines	54,541,000	45,688,000
Raw materials	14,224,000	11,861,000
Total inventory	105,599,000	91,799,000
Prepaid expenses	3,608,000	3,911,000
Total current assets	244,442,000	213,566,000

Investment in and advances to affiliated companies	3,464,000	2,479,000
---	------------------	------------------

Property, plant and equipment, at cost:

Land and vineyards	20,886,000	23,125,000
Buildings	84,346,000	89,126,000
Machinery and equipment	114,610,000	108,256,000
Leasehold improvements	23,288,000	25,655,000
Wine tanker	6,974,000	6,974,000
	250,104,000	253,136,000
Less accumulated depreciation	115,460,000	108,038,000
	134,644,000	145,098,000

Other assets:

Properties not used in operations (Note 4)	19,126,000	6,751,000
Cost in excess of net assets of purchased businesses	18,549,000	18,384,000
Trademarks, contracts, and franchises	6,825,000	3,716,000
Deferred income taxes (Note 4)	15,194,000	4,980,000
Other	11,327,000	10,362,000
	71,021,000	44,193,000
	\$453,571,000	\$405,336,000

See accompanying notes and summary of accounting policies.

	1972	1971
LIABILITIES		
Current liabilities:		
Notes payable	\$ 1,535,000	\$ 31,360,000
Current portion of long-term debt	1,633,000	18,421,000
Accounts payable	27,527,000	26,210,000
Accrued expenses	21,456,000	18,618,000
Taxes:		
Federal and state taxes on income	12,953,000	14,120,000
Other	22,573,000	20,987,000
Cash dividends payable	4,239,000	2,706,000
Current portion of reserve for discontinued operations (Note 4)	5,997,000	3,020,000
Total current liabilities	97,913,000	135,442,000
 Long-term debt, due after one year (Note 2)	 112,099,000	 99,302,000
 Reserve for discontinued operations (Note 4)	 23,168,000	 5,876,000
 Other long-term liabilities and deferred income	 5,876,000	 3,506,000
 SHAREHOLDERS' EQUITY (Note 3):		
Preferred stock	13,039,000	35,532,000
Common stock	9,661,000	8,607,000
Additional paid-in capital	114,123,000	42,566,000
Retained earnings	77,692,000	74,505,000
Total shareholders' equity	214,515,000	161,210,000
	\$453,571,000	\$405,336,000

See accompanying notes and summary of accounting policies.

CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL

Years ended June 30, 1972 and 1971

	1972	1971
Balance at beginning of year as previously reported	\$ 42,566,000	\$13,732,000
Adjustments relating to pooled companies	27,000	20,513,000
Excess of option price over stated value of common stock issued on exercise of options	3,506,000	1,401,000
Excess of par or stated value of debentures and preferred stocks over stated value of common stock exchanged less unamortized balance of underwriting costs	66,933,000	6,863,000
Difference between par or stated value and cost of preferred stocks purchased	639,000	57,000
Other	452,000	—
Balance at end of year	<u>\$114,123,000</u>	<u>\$42,566,000</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended June 30, 1972 and 1971

	1972	1971
Balance at beginning of year as previously reported	\$ 74,505,000	\$31,599,000
Retained earnings of companies acquired as poolings of interests including adjustment for different fiscal years (Note 1)	—	31,788,000
Net income	19,401,000	22,092,000
Cash dividends declared:		
Common stock — \$.87 per share (\$.84 in 1971)	(15,921,000)	(9,554,000)
Preferred stock	(293,000)	(1,078,000)
Dividends of pooled companies prior to acquisition	—	(342,000)
Balance at end of year	<u>\$ 77,692,000</u>	<u>\$74,505,000</u>

See accompanying notes and summary of accounting policies.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended June 30, 1972 and 1971

1972

1971

SOURCES OF WORKING CAPITAL

Operations:

Income before extraordinary items	\$ 34,651,000	\$28,957,000
Charges not requiring funds:		
Depreciation and amortization	12,658,000	13,254,000
Other	231,000	2,102,000
Funds provided from operations before extraordinary items	47,540,000	44,313,000
Extraordinary items	(15,250,000)	(6,865,000)
Less current portion of extraordinary items	7,943,000	3,303,000
Extraordinary items — net	(7,307,000)	(3,562,000)
Proceeds from exercise of stock options	3,561,000	1,430,000
Book value of assets sold	13,561,000	23,427,000
Increase in long-term debt	178,927,000	110,000
Increase in common stock and additional paid-in capital resulting from conversions and retirements of debentures and preferred stock	69,946,000	7,121,000
Issuance of Series A preferred stock in partial distribution of settlement of contingent tax liability (Note 3)	1,977,000	—
Other	1,503,000	1,210,000
	309,708,000	74,049,000

USES OF WORKING CAPITAL

Cash dividends	16,214,000	10,632,000
Purchase of treasury stock and partial redemptions of series preferred stock	5,058,000	2,721,000
Repayment of long-term debt	116,130,000	11,341,000
Additions to property, plant and equipment	27,320,000	43,650,000
Conversions of debentures and preferred stocks	69,415,000	7,094,000
Investment in affiliated companies	985,000	1,562,000
Additions to cost in excess of net assets of purchased businesses, contracts, trademarks, and franchises	4,272,000	109,000
Other	1,909,000	1,496,000
	241,303,000	78,605,000
Increase (decrease) in working capital	\$ 68,405,000	\$ (4,556,000)

CHANGE IN WORKING CAPITAL**Increase (decrease) in current assets:**

Cash and marketable securities	\$ 10,140,000	\$ 1,233,000
Accounts and notes receivable	7,239,000	3,990,000
Inventory	13,800,000	7,198,000
Prepaid expenses	(303,000)	(1,885,000)
	30,876,000	10,536,000

Less increase (decrease) in current liabilities:

Notes payable and current portion of long-term debt	(46,613,000)	16,440,000
Accounts payable, accrued expenses and taxes	4,574,000	(3,756,000)
Cash dividends payable	1,533,000	(612,000)
Current portion of reserve for discontinued operations	2,977,000	3,020,000
	(37,529,000)	15,092,000
Increase (decrease) in working capital	\$ 68,405,000	\$ (4,556,000)

See accompanying notes and summary of accounting policies.

STATEMENT OF ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The major accounting policies of the Company are summarized below to assist the reader in understanding the financial information presented in this report.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

Current assets and liabilities of foreign subsidiaries are translated into United States dollars at year-end exchange rates, non-current assets and related depreciation and amortization and liabilities at rates in effect at the time of the transaction, and operations at rates prevailing during the year.

The Company's investments in affiliated companies (not majority owned) are carried at its equity in their net assets and the Company's operating results include its share of their net income.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Renewals of a major nature and betterments which extend their useful lives are capitalized. Provision for depreciation and amortization is generally computed by the straight-line method over the estimated useful lives of the respective assets.

Cost in Excess of net assets of purchased businesses, Trade-marks, Contracts and Franchises

Cost in excess of net assets of purchased businesses aggregating \$15,084,000 arising from transactions prior to November 1, 1970 is not being amortized as, in the opinion of management, there has been no diminution in value. The balance is being amortized over varying periods ranging from 20 to 40 years.

Trademarks, contracts and franchises are carried at cost less amortization which is being provided principally on a straight-line basis over periods ranging from 5 to 30 years.

Franchise Fees

Monthly franchise fees are accrued currently based on sales of the franchisees and initial franchise fees are recorded as income on the date the store is opened by the franchisee.

Income Taxes

Deferred income taxes arise from timing differences between financial and tax reporting.

Prior to July 1, 1971, the Company generally followed the

practice of amortizing the investment credit over a five year period. Effective July 1, 1971, the Company adopted the policy of deducting the investment credit from the provision for federal income taxes. The effect of this change was not material.

Pension Costs

Pension costs charged to current earnings include charges for current service and amortization of prior years' service costs over 30 years. The Company's policy is to fund the amounts accrued.

Earnings Per Share

Earnings per common and common equivalent share are based upon the Company's average number of shares of common stock outstanding during the year and average common equivalent shares. Common equivalent shares include those issuable on the exercise of dilutive stock options (after reduction for common shares assumed to have been purchased with the proceeds), issuable upon conversion of the Series B preferred shares, and additional shares issuable under contingent pay-out provisions for pooled companies. Earnings per common share assuming full dilution were determined on the further assumption that all outstanding convertible securities had been converted.

Note 1 - Acquisitions

In fiscal 1971 the Company acquired Regina Grape Products Company in exchange for 60,000 shares of common stock. On July 8, 1971, the Company acquired Kentucky Fried Chicken Corporation (KFC) and subsequently acquired three KFC franchisees in exchange for 5,489,477 shares and 216,525 shares of common stock, respectively. These acquisitions have been accounted for as poolings of interests. Accordingly, the consolidated financial statements have been restated to include the operations of these companies. Revenues and net income as previously reported for fiscal 1971 were \$629,845,000 and \$20,208,000, respectively.

Note 2 - Long-Term Debt

Long-term debt due after one year was as follows:

	June 30	
	1972	1971
5¾% convertible subordinated debentures	\$ —	\$50,000,000
4½% convertible subordinated debentures, due May 15, 1997	100,000,000	—
Other:		
Notes payable to bank	2,000,000	30,318,000
Mortgage notes payable in various installments	7,023,000	14,175,000
Other	3,076,000	4,809,000
	<u>\$112,099,000</u>	<u>\$99,302,000</u>

In 1972 the Company called its 5¾% subordinated debentures for redemption, and substantially all of the debentures were converted into 1,181,894 shares of common stock.

The 4½% subordinated debentures issued in May 1972 are convertible into common stock at approximately \$69.50 per share (1,438,800 shares) and are subject to redemption through annual sinking fund payments beginning in 1983 of not less than 6% nor more than 12% of the principal amount of debentures outstanding in 1982.

Mortgage notes payable are collateralized by deeds of trust, leasehold improvements, buildings, equipment, a wine tanker and other assets with a net carrying amount of approximately \$8,853,000 at June 30, 1972.

The most restrictive terms of the long-term debt limit the payment of cash dividends. Consolidated retained earnings not so restricted at June 30, 1972 amounted to approximately \$43,600,000.

Note 3 – Capital Stock

During fiscal 1972, in a partial distribution under the terms of a contingent tax liability holdback agreement related to the Company's acquisition of Heublein Allied Vintners, Inc. and its subsidiary, United Vintners, Inc., 153,840 shares of Series A Convertible Preferred Stock were issued. At June 30, 1972, 14,284 shares were contingently issuable under the terms of the holdback agreement.

Both the Series A and B preferred stock classes are redeemable at the option of the holder at the rate of 1/6 per year after November 1, 1969 for the Series A shares (of which \$6,816,000 has been redeemed through June 30, 1972) and 1/5 per year after November 1, 1970 for the Series B shares (of which \$50,000 has been redeemed through June 30, 1972). The Company has the option to redeem both classes in whole or in part for \$10 per share beginning November 1, 1976, less any amounts theretofore paid. During fiscal 1972, 70,900 shares of Series B preferred stock were converted into 20,555 shares of common stock (none in 1971).

In 1972, pursuant to an offer by the Company, 74,681 shares of 5% preferred stock were exchanged for 145,375 shares of common stock and 25,563 shares were purchased and retired. Also, all of the outstanding shares of 5% convertible preferred stock were converted into 647,940 shares of common stock.

On July 8, 1971 the authorized common stock was increased to 25,000,000 shares.

	June 30	
	1972	1971
A summary of capital stock follows:		
5% preferred – par value \$100 per share, 500,000 shares authorized, outstanding 100,244 shares at June 30, 1971	\$ —	\$10,024,000
5% convertible preferred – par value \$100 per share, 200,500 shares authorized, outstanding 107,990 shares at June 30, 1971	—	10,799,000
Series preferred stock – without par value, authorized 5,000,000 shares:		
Series A convertible, non-dividend, stated value \$10 per share, each share convertible into .10 share of common stock, outstanding 1,696,281 shares at June 30, 1972 and 1,542,148 shares at June 30, 1971	10,149,000	11,081,000
Series B convertible, non-dividend, stated value \$10 per share, each share convertible into .2974 share of common stock, outstanding 289,010 shares at June 30, 1972 and 362,817 at June 30, 1971	2,890,000	3,628,000
Total preferred stock	<u>\$13,039,000</u>	<u>\$35,532,000</u>
Common stock – without par value, stated value \$.50 per share authorized and issued at June 30, 1972 – 25,000,000 and 19,322,392 shares respectively and at June 30, 1971 – 20,000,000 and 17,214,660 shares respectively	<u>\$ 9,661,000</u>	<u>\$ 8,607,000</u>

In October 1971, the Company adopted the 1971 Stock Option Plan which provides for the granting of options for the purchase of 500,000 shares of common stock to officers and other key

employees at an option price of not less than 100% of the fair market value of the Company's common stock at the date of grant. The 1971 Plan provides for the granting of both qualified and non-qualified stock options. The terms of the qualified and non-qualified options may not exceed five years and ten years, respectively. At June 30, 1972, 40,900 qualified stock options at an option price of \$53.44 per share (market value at date of grant) had been granted since the inception of the 1971 Plan but were not yet exercisable.

The following table sets forth information pertaining to options to purchase common shares under the previous qualified and restricted stock option plans:

	1972	1971
Outstanding options at		
July 1	418,830	436,875
Granted	357,000	43,500
Surrendered or forfeited ..	(54,420)	(4,085)
Exercised	<u>(106,883)</u>	<u>(57,460)</u>
Outstanding options at		
June 30	<u>614,527</u>	<u>418,830</u>
Price of options exercised during the year	\$16.63 to \$41.94	\$12.78 to \$41.94
Average price per share	\$32.34	\$24.88
At June 30:		
Prices of outstanding options	\$29.03 to \$53.44	\$16.63 to \$41.94
Average price per share	\$40.42	\$35.29
Exercisable options	163,016	141,352
Options available for future grant:		
Previous plans	5,839	308,419
1971 plan	459,100	—
Total available	<u>464,939</u>	<u>308,419</u>

In connection with the acquisition of KFC, the Company granted to holders of KFC stock options substitute stock options to purchase shares of the Company's common stock. Options to purchase 73,444 shares of common stock were so granted of which 3,533 were exercised at prices ranging from \$27.12 to \$45.05 (average \$29.72). Options for the purchase of 27,857 shares were terminated. At June 30, 1972 options to purchase 42,048 shares at prices ranging from \$27.13 to \$100.00 (average \$64.61) were outstanding of which options to purchase 29,515 shares were exercisable.

Under the terms of an agreement, dated March 27, 1971, pursuant to the disposition of certain KFC owned roast beef and fish & chips outlets (described in Note 4), the purchaser has the right to acquire on March 27, 1974, under certain conditions, 2,650 shares of the Company's common stock at \$41.50 per share (based on KFC's common stock market price on April 1, 1971).

At June 30, 1972 shares of common stock were reserved as follows:

Conversion of outstanding:	
4½% convertible subordinated debentures	1,438,800
Series A convertible preferred stock	101,500
Series B convertible preferred stock	85,952
Stock options	1,162,414
Contingent payout provisions of acquisition and other agreements	79,235
	<u>2,867,901</u>

In addition, a maximum of 14,284 shares at June 30, 1972 of Series A convertible preferred stock may be issued under the contingent tax liability holdback agreement and 1,428 common shares at June 30, 1972 are reserved for conversion of these shares.

Note 4 – Reserve for Discontinued Operations and Extraordinary Items

In fiscal year 1971, KFC decided to discontinue operating its owned and leased roast beef and domestic fish & chips outlets and its three motor hotels and KFC's management provided for the then estimated losses of \$13,000,000 (\$6,500,000 net of tax) to cover operating losses until their disposition, and losses on disposal of equipment, other assets and on subleasing. Also, \$365,000 of costs in excess of net assets of purchased businesses to be discontinued were written off. In December 1971, it was determined that an additional \$32,500,000 (\$15,250,000 net of tax) would be required to close out these operations and such additional reserve was provided. Management believes that the total reserve provided will be sufficient to complete the discontinuance of these operations.

Losses incurred subsequent to this decision and costs and expenses incurred in dispositions which were charged against the reserve, aggregated \$12,231,000 and \$4,104,000 in fiscal 1972 and 1971 respectively. Management estimates that certain costs and expenses in disposition of such facilities will continue beyond one year. The estimated current portion of the remaining reserve amounted to \$5,997,000 at June 30, 1972. The estimated reduction in income taxes applicable thereto has been offset against the liability for federal and state income taxes. The balance of the reserve and the estimated reduction in future income taxes have been classified as non-current items in the accompanying consolidated balance sheet.

The 1971 operations prior to the decision to discontinue have been segregated from continuing operations as loss from discontinued operations, which includes revenues of \$13,153,000.

Note 5 – Leases and Commitments

At June 30, 1972, the Company was a lessee under numerous leases having terms expiring from 1973 through 1999. Aggregate minimum rentals (excluding payments for real estate taxes, maintenance and insurance required under certain leases) are: 1973 – \$12,551,000; 1974 – \$11,453,000; 1975 – \$10,405,000; 1976 – \$8,958,000; 1977 – \$7,706,000 and thereafter in decreasing amounts aggregating \$66,686,000 through 1999.

In connection with the decision to discontinue certain operations, KFC entered into various subleases with fish and chips and roast beef franchisees for rental of various land, buildings and equipment having terms generally expiring with the Company's basic lease. In fiscal 1972, most of these subleases were can-

celled and the franchised units were returned to the Company. At June 30, 1972, KFC was in the process of selling or subleasing these returned units.

The Company has entered into agreements to acquire Spring Valley Foods, Inc. and Hart's, Inc., in exchange for approximately 360,000 shares of common stock subject to definitive contracts. These transactions which will not have a material effect on the consolidated financial statements will be accounted for as poolings of interests when consummated.

Note 6 – Litigation

The Company is one defendant in two class action complaints alleging violations of Federal anti-trust laws and is a defendant in other litigation in which the aggregate alleged damages are substantial. Based upon the advice of counsel, management believes that the Company has adequate defenses and no material liability will result from such litigation.

On July 28, 1972, the Federal Trade Commission notified the Company of its intention to file a complaint charging a violation of Section 7 of the Clayton Act in connection with the Company's 1968 acquisition of a controlling interest in United Vintners, Inc. The complaint will seek to require divestiture of the Company's interest in United Vintners and prohibit for 10 years the acquisition of other companies producing or selling domestic wine. Management, with the advice of counsel, believes that the acquisition does not violate any Federal statute. Management intends to assert a vigorous defense and believes that there will be no material effect on the Company's financial position.

Note 7 – Retirement and Profit-Sharing Plans

The Company has non-contributory retirement plans which cover substantially all full-time domestic employees except certain employees covered by various union pension plans and KFC employees who will be covered effective July 1, 1972. Under collective bargaining agreements, the Company makes contributions to various pension plans for certain union employees. Pension expenses under all these plans amounted to \$2,463,000 in 1972 and \$2,076,000 in 1971.

Under the Company's Profit Sharing Plan for salaried employees, the Company's basic contribution is at least equal to 5% of the participants' salaries plus a supplemental contribution with the total contribution limited to 8% of total salaries. Contributions to the plan amounted to \$1,525,000 in 1972 and \$1,401,000 in 1971.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Heublein, Inc.

We have examined the accompanying consolidated balance sheet of Heublein, Inc. at June 30, 1972 and 1971 and the related consolidated statements of income, additional paid-in capital, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Heublein Allied Vintners, Inc. and Kentucky Fried Chicken Corporation, consolidated subsidiaries, which combined statements reflect total assets constituting 54% and total revenues constituting 40% of the related consolidated totals. These statements

were examined by other auditors, whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Heublein Allied Vintners, Inc. and Kentucky Fried Chicken Corporation and their respective subsidiaries is based solely on the reports of other auditors.

In our opinion, based upon our examination and the reports of other auditors referred to above, the statements mentioned above present fairly the consolidated financial position of Heublein, Inc. at June 30, 1972 and 1971, and the consolidated results of operations and the changes in consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

New York, N.Y.
July 28, 1972

COMPARISON WITH PRIOR YEARS

Dollars in thousands except per share statistics

FOR THE YEAR:	1972	1971	1970	1969	1968
Net sales and revenues	\$ 941,753	\$ 837,694	\$ 785,439	\$ 686,075	\$ 600,121
Income from continuing operations	34,651	30,563	31,492	29,578	23,735
Net income	19,401	22,092	30,651	29,455	23,735
Income as a percent of sales and revenues*	3.88%	3.65%	4.01%	4.31%	3.96%
Taxes of all kinds	329,295	295,600	284,592	259,173	225,784
Dividends:					
Preferred requirements	293	1,076	1,377	2,733	3,026
Common	15,921	9,554	8,586	7,774	7,012
Earnings retained in the business*	18,437	19,931	21,529	19,071	13,697
Depreciation	11,797	12,533	12,138	9,800	9,589
Capital Expenditures	27,320	43,650	63,669	32,577	22,169
Per common and common equivalent share:					
Net income from continuing operations	1.87	1.70	1.79	1.63	1.26
Net income	1.04	1.21	1.74	1.62	1.26
Income taxes	2.08	1.93	2.16	2.09	1.47
All taxes	17.88	17.08	16.92	15.74	13.73
Dividends declared per common share	.97	.84	.79	.75	.68
AT YEAR END:					
Net fixed assets	134,644	145,098	147,668	106,843	85,207
Working capital	146,529	78,124	82,660	48,094	41,589
Current asset ratio	2.5 to 1	1.6 to 1	1.7 to 1	1.4 to 1	1.4 to 1
Return on Shareholders' Equity*	18.4%	19.4%	21.5%	21.1%	18.3%
Number:					
Employees	14,400	13,884	12,808	11,394	10,801
Common shareholders	27,826	31,209	27,408	27,368	21,806
Common shares and common equivalent shares	18,411,359	17,301,849	16,816,143	16,463,117	16,446,867
Preferred shares - \$100 par value	—	206,234	273,877	297,892	603,227
Preferred shares - \$10 stated value	1,905,291	1,904,965	1,982,082	2,233,606	2,234,164

*Based upon income from continuing operations

HEUBLEIN, INC.

DIRECTORS

Dewalt H. Ankeny
John Y. Brown, Jr.*
Christopher W. Carriuolo
Peter M. Fraser*
Edward H. Hamm
Leon W. Harman
Ralph A. Hart*
John G. Martin*
Arthur A. Milligan
William H. Mortensen*
Frances Heublein O'Dell
Richard M. Oster
Berry M. Rowles
Lester E. Shippee*
B.C. Solari
Robert L. Treschar*
Stuart D. Watson*
William T. Young

*Members of Executive Committee

CORPORATE OFFICERS

Stuart D. Watson
 President & Chief Executive Officer
Christopher W. Carriuolo
 Group Vice President
 Alcoholic Beverages Group
Paul R. Dohl
 Group Vice President
 International Group
Barry M. Rowles
 Group Vice President
 Foods Group
Edward L. Hennessy, Jr.
 Senior Vice President
 Administration and Finance
Richard M. Oster
 Senior Vice President
 Chairman and President
 United Vintners, Inc.
B.C. Solari
 Senior Vice President
John R. Blane
 Vice President
 Management Information Systems
J. Richard Grieb
 Vice President
 President
 Smirnoff Beverage & Import Co.
Charles J. Herbert
 Vice President
 President
 Theodore Hamm Company
Joseph M. McGarry
 Vice President
 Communications & Public Affairs
Michael A. Miles
 Vice President
 General Manager
 Consumer Products Division
John J. Moran
 Vice President
 Financial Planning
Kurt E. Volckmar
 Vice President
 Executive Vice President
 Heublein International, Ltd.
George J. Caspar
 Secretary and General Counsel
Gene R. Ehnen
 Controller
John R. Graham, Jr.
 Treasurer

PRINCIPAL OFFICES AND PLANTS

Corporate Headquarters
 330 New Park Avenue, Hartford, Conn. 06101 Code 203-233-7531
Consumer Products Division
 430 New Park Avenue, Hartford, Conn. 06101 Code 203-233-7531
Theodore Hamm Company
 720 Payne Avenue, St. Paul, Minn. 55101 Code 612-776-1661
Heublein International, Ltd. Headquarters
 330 New Park Avenue, Hartford, Conn. 06101 Code 203-233-7531
Kentucky Fried Chicken Corporation
 1441 Gardiner Lane, Louisville, Ky. 40213 Code 502-459-8600
Smirnoff Beverage and Import Co. Headquarters
 330 New Park Avenue, Hartford, Conn. 06101 Code 203-233-7531
United Vintners, Inc. Headquarters
 601 Fourth St., San Francisco, Calif. 94107 Code 415-421-3213
Beaulieu Vineyard
 57 Post St., San Francisco, Calif. 94104 Code 415-392-0157

ANNUAL SHAREHOLDERS' MEETING

The annual meeting of shareholders of Heublein, Inc., will be held at 10 a.m., Thursday, October 26, 1972, in the Plaza Room of the Hotel Sanesta, Constitution Plaza, Hartford, Conn.

Transfer Agents

The Bank of New York
 90 Washington Street
 New York, New York 10015
 Bank of America, N.Y. & S.A.
 55 Hawthorne Street
 San Francisco, California 94105
 Third National Bank in Nashville
 Uptown Station, P.O. Box 2844
 Nashville, Tennessee 37214

Registrars

Morgan Guaranty Trust Co. of New York
 23 Wall Street
 New York, New York 10015
 Wells Fargo Bank, N.A.
 464 California Street
 San Francisco, California 94105
 First American National Bank
 326 Union Street
 Nashville, Tennessee 37237

HEUBLEIN, INC., 330 NEW PARK AVE., HARTFORD, CONNECTICUT 06101